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June 20, 2002

VIA ELECTRONIC FILING

Ms. Marlene Dortch
Secretary
Federal Communications Commission
The Portals
445 12th Street SW
Washington DC 20554

Re: CC Dockets No. 96-45, 98-171, 90-571, 92-237, 99-200, 96-116, 98-170, and NSD File No. L-00-72.

Dear Ms. Dortch.

Attached are copies of a presentation e-mailed to Paul Garnett of the Wireline Competition Bureau. The attached presentation summarizes SBC's position and proposal in the Commission's open proceeding on universal service contribution and recovery mechanisms. It will be used in the Commission's Public Meeting scheduled for Friday, June 21st, 2002.

In accordance with Section 1.1206 of the Commission's rules, this letter and the attached are being filed in each of the above referenced dockets via the Commission's Electronic Comments Filing System. Should you have any questions regarding the attached, please do not hesitate to contact me by whatever means are most convenient for you.

Sincerely,

A Comprehensive "Connection-Based" Contribution and Recovery Mechanism for the Universal Service Fund

SBC Communications Inc.

June 21, 2002

Problems with the Current Contribution Mechanism

- The current mechanism does not adequately account for changes in the marketplace, *e.g.*, CLEC entry into local, RBOC entry into long distance and substitution of wireless for traditional wireline local and long distance services.

- The current funding and recovery mechanisms are neither competitively nor technologically neutral.
  - DSL-based broadband service must contribute, but cable modem does not.
  - LECs and IXCs must contribute, but IP telephony does not.

- Innovative service offerings such as package pricing and service bundling are not easily accommodated by the current funding mechanism.

- The lack of uniform recovery is undoubtedly confusing for customers, and detrimental to the perceived legitimacy of end user charges.

Principles for Sustainable & Equitable USF Funding

- The contribution base should be broadly defined to minimize the financial impact to any one group of customers.
- Contributions should be based on the level of interstate retail telecommunications activity.
- Universal service recovery charges should not impact consumer choice of service providers.
- Competitive and substitutable services must result in comparable USF contribution obligations.
- End user charges should correspond to the contribution factor.

SBC/BellSouth Joint Contribution Proposal Overview

- All providers of telecommunications, regardless of technology platform or facilities ownership - including common carriers, private carriers, Internet Service Providers (ISPs) and other content providers - should contribute based on their end user interstate telecommunications activities, *i.e.*, qualifying service connections (QSCs).

- Each retail relationship with a QSC provider – including Access QSCs and Interstate Transport QSCs – generates a contribution obligation. An end user may establish multiple retail relationships or purchase an integrated or bundled service from a single provider of interstate telecommunications. In either case, the total amount of the universal service contribution is the same.

- The amount of the contribution increases as the capacity of the QSC increases. Separate contributions are assessed for connections to circuit-switched networks and packet-switched networks.

- A QSC provided on an occasional use basis, *e.g.*, calling card, will be determined by applying a contribution factor to end user interstate telecommunications revenues.

- Lifeline services and *de minimis* interstate telecommunications activities are exempt from the contribution obligation.

SBC/BellSouth Joint Contribution Proposal
Contribution Base

- All providers of telecommunications should contribute to the federal universal service funding mechanism based upon their ***interstate telecommunications activities***.

- Interstate telecommunications activity occurs when service providers sell telecommunications services or services that incorporate a telecommunication component to end users for the transmission of interstate communications. These retail services are referred to as ***qualifying services***.

- Service providers should contribute to universal service based on the type of ***qualifying service connections (QSCs)*** they provide to end users. A QSC designates the type of functionality and maximum amount of network capacity an end user may utilize as a result of purchasing a qualifying service.

  - ***Access QSC*** - Connects the end user to interstate transmission facilities.

  - ***Interstate Transport QSC*** - Connects points between states.

  - ***Occasional Use QSC*** - Services offered on a "pay as you go" basis, *e.g.*, calling-card and dial-around long distance services.

SBC/BellSouth Joint Contribution Proposal
Access and Interstate Transport QSCs

- All interstate transmissions are comprised of an Access QSC and an Interstate Transport QSC.

- The Access QSC and Interstate Transport QSC of an interstate transmission may be provided through a variety of service arrangements.

  - *Separate Access and Interstate Transport QSCs* - interstate access service, interstate long distance service

  - *Integrated Access and Interstate Transport QSCs* - cable modem service

  - *Bundled Access and Interstate Transport QSCs* - broadband Internet access when an ISP bundles DSL with packet-switched interstate transport, mobile wireless service

- For each type of service arrangement, an Access QSC and an Interstate Transport QSC should generate a discrete obligation to contribute to universal service.

SBC/BellSouth Joint Contribution Proposal
Measuring Interstate Telecommunications Activity

- Most qualifying services are sold to end users based on the bandwidth capacity of the qualifying service. Since service price typically increases as bandwidth increases, capacity is an appropriate indicator of telecommunications activity and success in the marketplace.

- Higher bandwidth services represent more interstate telecommunications activity than lower bandwidth services and should generate a larger USF contribution obligation. Bandwidth capacity units are assigned to each Access QSC and Interstate Transport QSC:

  One-way paging = ½

  Asymmetrical less than or equal to 6 Mbps = 1

  Asymmetrical greater than 6 Mbps = 2

  Centrex less than or equal to 64 Kbps = 1/9

  Less than or equal to 64 Kbps = 1

  Greater than 64 Kbps, less than 1.544 Mbps = 2

  Greater than or equal to 1.544 Mbps, less than 45 Mbps = 5

  Greater than or equal to 45 Mbps = 40

- Interstate end user revenues will be used to define a service provider's level of interstate telecommunications activity associated with Occasional Use QSCs.

SBC/BellSouth Joint Contribution Proposal
Contribution Factors

- A contribution factor will be calculated on an annual basis and will be used to allocate the federal universal service funding obligation.

  - A percentage-based factor should be applied to interstate end user revenues Occasional Use QSCs. The current 7.2805% factor could serve as a reasonable starting point.

  - A flat-rated factor will be calculated by deducting the Occasional Use QSC contributions from the projected universal service funding amount and then dividing this residual amount by the total annualized number of Access QSCs and Interstate Transport QSCs.

- Each provider will calculate its monthly contribution by multiplying the percentage-based contribution factor by its occasional use revenues from the prior month and multiplying the flat-rated contribution factor by its total number of Access and Interstate Transport QSCs.

- Lifeline services and *de minimis* interstate activities are exempt from the contribution mechanism.

Benefits of the SBC/BellSouth Proposal

- Broadens the contribution base, thereby ensuring a stable funding source in a rapidly changing market.

- Takes a forward-looking approach. Contribution obligations are generated by the retail relationships associated with interstate services that provide telecommunications functionality, rather than by technology platform or type of provider.

- Ensures that those interstate service providers enjoying the most success in the marketplace - and their end users - provide the most support to universal service.

- Implements a connection-based approach that accommodates integrated pricing and service bundles.

- Eliminates the 6-month lag that disadvantages carriers with declining market shares.

- Compatible and readily adaptable to new regulatory paradigms, such as “Bill and Keep.”

Deficiencies of the IXC Coalition Proposal

- Removes the vast majority of the current funding base by eliminating contribution obligations of the largest providers of interstate telecommunications services. This is not only contrary to the requirements of section 254(d), but bad public policy.

- Completely ignores the *amount* of a provider's interstate telecommunications activities in determining contribution levels. As a result, it shifts a disproportionate amount of universal service contribution recovery towards low-volume end users of interstate services.

- Artificially caps residential end user charge, which discriminates against business customers and creates a political "time bomb" in light of a steadily growing fund.

- Maintains an artificial distinction between business and residential customers, thereby encouraging bypass and arbitrage.

SBC's Reporting & Recovery Proposal

- Instead of reporting revenues five times a year and being assessed contributions with a six-month lag, service providers contribute on the basis of their prior month's QSCs. A provider calculates its own monthly bill and reports its QSCs and capacity units at the same time it submits its monthly payment.

- Recovery is still permissive. However, all providers that *elect to recover* their universal service contributions *must do so through a uniform line-item charge* that is equivalent to the contribution factor assigned to the QSC.

  - Access and Interstate QSCs: Prescribed flat-rated contribution factor
  - Occasional Use QSCs: Prescribed percentage-based contribution factor of 7.2805% (represents a reasonable starting point)

- The Commission should establish a safe harbor that allows providers to recover a reasonable incremental percentage for uncollectibles and billing and administrative costs. A fixed percentage that serves as a safe harbor should be built into the funding requirement that generates provider contributions. The safe harbor would be deducted from the total billed contribution amount before the provider submits its contribution to USAC.